EXHIBIT 79

Governmental Accounting, Auditing, and Financial Reporting

Stephen J. Gauthier

Government Finance Officers Association

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The Financial Statement Audit

The purpose of a financial statement audit, in both the public sector and the private sector, is to provide users of financial statements with reasonable assurance that they can rely upon those statements to make informed decisions. This chapter reviews certain key concepts that underlie any financial statement audit, with special emphasis on factors unique to the public sector.

Responsibility for financial statements and the financial statement audit

Management, internal auditors, the governing body, the audit committee, and independent auditors all have a role to play in the production of audited financial statements.

Management/internal auditors

Financial statements are the vehicle that *management* uses to give an accounting of its stewardship of the resources entrusted to its care. Stated differently, financial statements represent *management's* assertions regarding an entity's finances. Consequently, management always remains responsible for the financial statements, even if management engages the services of others to help meet that responsibility (just as taxpayers remain responsible for their tax returns, even if they have them prepared by a tax professional).

Management cannot responsibly make assertions about an entity's finances without having some reasonable basis for doing so. A comprehensive framework of internal control provides that reasonable basis.[1] Internal auditors can play a critical role in maintaining that framework.[2]

Governing body/audit committee

The *governing body* is responsible for ensuring that management fulfills its obligations in regard to internal control and financial reporting. Typically, the governing body establishes an *audit committee* for that purpose. An audit committee helps the governing body meet its responsibility by:

1. See Chapter 42 for a discussion of internal control.
2. See Chapter 46 for a discussion of the work of internal auditors.